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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

Arizona Corporation Commission

DOCKETED

APR 11 2017

DOCKETED BY
GB

TOM FORESE – Chairman
BOB BURNS
DOUG LITTLE
ANDY TOBIN
BOYD W. DUNN

IN THE MATTER OF THE APPLICATION OF
SOUTHWEST GAS CORPORATION FOR THE
ESTABLISHMENT OF JUST AND REASONABLE
RATES AND CHARGES DESIGNED TO REALIZE
A REASONABLE RATE OF RETURN ON THE
FAIR VALUE OF THE PROPERTIES OF
SOUTHWEST GAS CORPORATION DEVOTED
TO ITS ARIZONA OPERATIONS.

DOCKET NO. G-01551A-16-0107

DECISION NO. 76069OPINION AND ORDER

DATES OF HEARING: February 3, 2017 (Pre-Hearing Conference); February 6, 2017 (Hearing)

PLACE OF HEARING: Phoenix, Arizona

ADMINISTRATIVE LAW JUDGE: Dwight D. Nodes¹

IN ATTENDANCE: Andy Tobin, Commissioner

APPEARANCES:

Ms. Catherine M. Mazzeo, on behalf of Southwest Gas Corporation;

Ms. Kimberly Ruht, OSBORN MALEDON, on behalf of the Arizona Investment Council;

Mr. Jeffrey W. Crockett, CROCKETT LAW GROUP, P.L.L.C., on behalf of Desert Valley Natural Gas, L.L.C.;

Ms. Cynthia Zwick, Executive Director, on behalf of Arizona Community Action Association;

Mr. Richard Gayer, in pro persona;

Mr. Robert Miller, Director, on behalf of the Property Owners and Residents Association of Sun City West;

Mr. Craig A. Marks, CRAIG A. MARKS, P.L.C., on behalf of Pinal Energy, L.L.C.;

Mr. Daniel Pozefsky, Chief Counsel, on behalf of the Residential Utility Consumer Office; and

¹ The Recommended Order was drafted by Administrative Law Judge Jane L. Rodda.

Mr. Charles Haines and Mr. Robert Geake, Staff Attorneys, Legal Division, on behalf of the Utilities Division of the Arizona Corporation Commission.

BY THE COMMISSION:

* * * * *

Having considered the entire record herein and being fully advised in the premises, the Arizona Corporation Commission ("Commission") finds, concludes, and orders that:

FINDINGS OF FACT

Procedural History

1. On March 21, 2016, Southwest Gas Corporation ("SWG" or "Company") filed with the Commission a Notice of Intent to File a Rate Case Application, on or about May 2, 2016.
2. On April 15, 2016, Mr. Richard Gayer filed a Motion to Intervene.
3. On May 2, 2016, SWG filed an application for an increase in rates for service provided in Arizona.
4. On May 12, 2016, SWG filed substitute tariff sheets to its May 2, 2016 application.
5. On May 16, 2016, the Arizona Investment Council ("AIC") filed a Motion for Leave to Intervene.
6. On May 26, 2016, the Residential Utility Consumer Office ("RUCO") filed an Application to Intervene.
7. On May 31, 2016, Richard Gayer filed a Motion to Amend Tariff. Mr. Gayer sought to modify SWG's proposed tariff language to clarify the "EEP Monthly Weather Adjustment" and "EEP Annual Adjustment."
8. On June 1, 2016, the Commission's Utilities Division ("Staff") filed a Letter of Sufficiency indicating that SWG's application satisfied the sufficiency requirements of Arizona Administrative Code ("A.A.C.") R14-2-103, and classified the Company as a Class A utility.
9. On June 8, 2016, SWG filed an Opposition and Response to Mr. Gayer's Motion to Amend Tariff.
10. On June 13, 2016, the Arizona Community Action Association ("ACAA") filed a Motion to Intervene.

1 11. On June 24, 2016, NatureSweet USA, LLC ("NatureSweet") filed a Motion to
2 Intervene.

3 12. On June 27, 2016, a Procedural Order was issued scheduling this matter for hearing to
4 commence on February 6, 2017, and establishing other procedural deadlines. Intervention was granted
5 to Mr. Gayer, AIC, RUCO and ACAA.

6 13. On June 29, 2016, with the agreement of Staff and RUCO, SWG filed a Motion for
7 Modifications to Procedural Schedule.

8 14. On July 6, 2016, a Procedural Order was issued granting SWG's Request, extending the
9 deadline for filing Staff and intervenor direct testimony on rate design issues from December 7, 2016
10 to December 14, 2016, and extending the deadline for mailing and publication to be completed, from
11 August 1, 2016 to August 10, 2016. Intervention was granted to NatureSweet.

12 15. On August 3, 2016, Desert Valley Natural Gas, LLC ("DVNG"), a limited liability
13 company formed to act as an agent for natural gas customers who choose to secure their own natural
14 gas, filed an Application for Intervention.

15 16. On August 15, 2016, SWG filed an Opposition and Response to DVNG's Motion to
16 Intervene, arguing that DVNG was seeking to establish a new program in Arizona to aggregate multiple
17 utility customers and purchase natural gas on their behalf, and that DVNG did not demonstrate that it
18 would be directly and substantially affected by any issue or possible outcome in this proceeding. SWG
19 also argued that DVNG was attempting to interject an entirely new issue into the proceeding which
20 was more appropriately addressed through a rulemaking proceeding.

21 17. On August 17, 2016, DVNG filed a Reply stating that it would be directly and
22 substantially affected by how the Commission addressed SWG's proposed Schedule No. T-1, which
23 DVNG claimed was discriminatory because it would allow only small commercial customers affiliated
24 with an existing SWG industrial customer to choose their own natural gas supplier. DVNG asserted
25 that its participation would not unduly broaden the scope of the proceeding and that SWG's rate case
26 is the proper forum to address the Company's proposed modifications to Schedule No. T-1 and other
27 tariffs.

28 18. By Procedural Order issued August 24, 2016, DVNG was granted intervention.

1 19. On September 1, 2016, Pinal Energy, LLC (“Pinal Energy”) filed a Motion to Intervene
2 and Consent to Email Service.

3 20. On September 2, 2016, the Property Owners and Residents Association of Sun City
4 West (“PORA”) filed an Application to Intervene and Consent to Email Service.²

5 21. On September 2, 2016, SWG filed a Certification of Mailing and Publication, indicating
6 that notice of the hearing was published on July 27, 2016 in the *Arizona Daily Star*, *Eastern Arizona*
7 *Courier*, *Mohave Daily News*, *The Parker Pioneer*, *Sierra Vista Herald & Bisbee Daily Review*, *The*
8 *Tri-Valley Dispatch*, and *The Yuma Sun*; and on July 28, 2016 in the *Arizona Business Gazette*. In
9 addition, the Notice was mailed to customers between July 6, 2016, and August 4, 2016.

10 22. On September 7, 2016, SWG filed a Motion to Accept Late-Filed Opposition to Pinal
11 Energy’s Motion to Intervene and an Opposition and Response to Pinal Energy’s Motion to Intervene.

12 23. On September 9, 2016, Pinal Energy filed a Reply in Support of Motion to Intervene.

13 24. On September 28, 2016, PORA and Pinal Energy were granted intervention.

14 25. On November 22, 2016, Mr. Gayer filed Direct Testimony.

15 26. On November 30, 2016, RUCO filed the Direct Testimonies of Jeffrey Michlik and John
16 Cassidy, and Staff filed the Direct Testimonies of Brian Bozzo, Blessing Chuckwu, Yue “Nick” Liu,
17 Kirk Balcom, Howard Lubow, Julie McNeely-Kirwin, Alan Borne, and Renelle Paladino.

18 27. On December 7, 2016, ACAA filed the Direct Testimony of Cynthia Zwick, and RUCO
19 filed the Direct Testimony of Mr. Michlik on rate design.³

20 28. On December 9, 2016, PORA filed the Direct Testimony of Robert Miller.

21 29. On December 12, 2016, DVNG filed the Direct Testimonies of Tyler Rohach and Kevin
22 Higgins.

23 30. On December 12, 2017, SWG filed a Notice of Settlement Meeting, scheduling
24 settlement discussions for December 15, 2016 and December 16, 2016.

25 31. On December 14, 2016, Staff filed Direct Testimony related to rate design of Mr.
26 Lubow.

27 ² Attached to its intervention request was a Resolution of the PORA Board of Directors authorizing Robert Miller to
28 represent PORA in this proceeding, or Rob Robbins if Mr. Miller was unavailable.

³ AIC filed notice that it would not be filing Direct Testimony.

1 32. On December 23, 2016, SWG filed a Motion for Modification to Procedural Schedule
2 because a partial settlement had been reached in principle with several parties.

3 33. On December 29, 2016, SWG filed a Settlement Term Sheet.

4 34. By Procedural Order issued December 30, 2016, SWG's requested modifications to the
5 procedural schedule were adopted, with a January 20, 2017 filing deadline for the settlement
6 agreement, and testimony in support of/opposition to the settlement agreement due by January 30,
7 2017.

8 35. On January 20, 2017, Staff filed a Settlement Agreement ("Settlement," "Agreement,"
9 or "Settlement Agreement") between SWG, RUCO, PORA, ACAA, DVNG, AIC, and Staff.⁴

10 36. On January 23, 2017, Mr. Gayer filed Objections to the Proposed Settlement
11 Agreement, in opposition to Part 10 concerning Revenue Decoupling and Part 12 concerning Bill
12 Presentation.

13 37. On January 25, 2017, NatureSweet filed Comments on the Settlement Agreement.
14 NatureSweet is not a signatory to the Settlement but stated that it does not oppose the Agreement.

15 38. On January 30, 2017, PORA filed a "Settlement Agreement Response" indicating that
16 it supports the Settlement Agreement; and ACAA, RUCO, SWG, DVNG, AIC and Staff filed
17 testimony in support of the Settlement Agreement.

18 39. On February 3, 2017, SWG filed final schedules supporting the Settlement Agreement,
19 and a Pre-Hearing Conference was conducted as scheduled.

20 40. The hearing in this matter convened, as scheduled, on February 6, 2017, before a duly
21 authorized Administrative Law Judge ("ALJ"). Justin Lee Brown testified for SWG, David Tenney
22 testified for RUCO, Bob Miller testified for PORA, Richard Gayer testified on his own behalf, and
23 Elijah Abinah testified for Staff. In addition, testimony in support of the Settlement by Gary Yaquinto
24 (AIC Ex. 1); direct testimony of Tyler Rohach and Kevin Higin (DVNG Exs. 1 and 2), Settlement
25 testimony of Mr. Rohach (DVNG Ex. 3); and direct and Settlement testimony of Cynthia Zwick
26 (ACAA Exs. 1 and 2) was stipulated into the record without objection. Pinal Energy did not present a
27

28 ⁴ On January 23, 2017, Staff filed a Supplement to the Settlement Agreement, consisting of signature pages for RUCO and PORA.

1 witness but indicated at the hearing that it does not oppose the Settlement Agreement with the exception
2 of the provision (Article 8) regarding the Vintage Steel Pipe Replacement Program. (Tr. 21-26.) At
3 the conclusion of the hearing, the ALJ took the matter under advisement pending issuance of a
4 Recommended Opinion and Order.

5 41. On February 21, 2017, SWG filed a late-filed exhibit (Ex. A-19), as requested at the
6 hearing by the ALJ, to address Mr. Gayer's concerns with respect to a detailed bill option.

7 42. On February 22, 2017, Mr. Gayer filed Objections to SWG's Exhibit A-19.

8 43. The Commission received ten written comments from the public in opposition to the
9 rate increase and/or decoupling mechanism.

10 **Background**

11 44. SWG provides retail distribution, transportation, and sales of natural gas for domestic,
12 commercial, agricultural and industrial uses, with approximately 1.9 million customers in Arizona,
13 California, and Nevada. Approximately 54 percent of the Company's customers are in Arizona.

14 45. SWG's current rates were established in Decision No. 72723 (June 30, 2010).

15 46. In its current application, using a test year ended November 30, 2015, SWG requested
16 approval of a general revenue increase of \$31.9 million, or approximately 6.63 percent, based on
17 adjusted test year revenues of \$481,681,406. SWG also sought to rebrand and expand its infrastructure
18 recovery program, a property tax true-up mechanism, retention of its fully decoupled rate design, and
19 amendments to its Arizona Gas Tariff.

20 47. In its pre-settlement Direct Testimony, Staff recommended a revenue increase of \$11.2
21 million, for a 6.01 percent rate of return on Staff's adjusted fair value rate base ("FVRB") of 1.812
22 billion.⁵

23 48. In its pre-settlement Direct Testimony, RUCO recommended a revenue increase of
24 \$10.6 million, or 2.20 percent over RUCO-adjusted test year revenues of \$481,681,406, which would
25 provide a 5.67 percent rate of return on a RUCO-adjusted FVRB of 1.795 billion.⁶

26 ...

27 _____
28 ⁵ Ex S-1 Bozzo Dir at 3.

⁶ Ex RUCO-2 Michlik Dir at ii.

1 **Settlement Agreement**

2 49. A copy of the Settlement Agreement is attached hereto as Exhibit A.

3 50. The Settlement Agreement provides, in material part, as follows:

4 a. SWG should receive a base rate increase of \$16 million over its adjusted test
5 year revenues of \$481,681,406, for a total revenue requirement of \$497,681,406.

6 b. SWG's FVRB is determined to be \$1,801,065,079.

7 c. SWG will not file its next rate case prior to May 1, 2019.

8 d. SWG's capital structure, for purposes of the Settlement Agreement, is
9 comprised of 48.3 percent long-term debt and 51.7 percent common equity, with a return
10 on common equity ("ROE") of 9.5 percent and an embedded cost of long-term debt of
11 5.2 percent. The Settlement employs an overall fair value rate of return ("FVROR") of
12 5.71 percent, with a cost rate of 0.93 percent on the FVRB increment.

13 e. Adopts Depreciation rates (Attachment 1 to the Settlement Agreement) that
14 reduce overall Depreciation Expense by \$44,743,206.

15 f. In conjunction with its next rate case, SWG will perform a detailed and objective
16 cost of removal study to determine the validity of significant increases in cost of removal
17 charges recorded in 2015 and after.

18 g. SWG is authorized to expand its Customer Owned Yard Line ("COYL")
19 program and will work with Staff to develop a Plan of Administration ("POA") for the
20 COYL to include revised annual reports consistent with the COYL program. The annual
21 rate adjustment for the COYL program surcharge will continue to be capped at \$0.01
22 per therm per year and shall be applied to all recorded full margin therms sold.

23 h. SWG is allowed to implement its proposed Vintage Steel Pipe ("VSP")
24 Replacement Program, with the annual surcharge adjustment capped at \$0.015 per
25 therm per year. The effective period for replacements under the VSP program will run
26 until the effective date of new rates approved in SWG's next rate case, unless extended
27 by the Commission. SWG, Staff, and RUCO will develop a POA to be circulated among
28 the parties to this docket and presented for Commission consideration in conjunction

1 with the consideration of the Settlement Agreement.

2 i. SWG is authorized to extend the deferral of the revenue requirement associated
3 with all costs flowing from the construction of the Tucson Liquefied Natural Gas
4 ("LNG") Facility incurred before December 31, 2020, which deferred amounts may be
5 considered for recovery in SWG's next rate case.

6 j. SWG's current full revenue decoupling mechanism shall be subject to the
7 modification of the Energy Efficiency Enabling Provision ("EEP") which will no longer
8 utilize a monthly weather adjustor. The EEP will henceforth be called the "Delivery
9 Charge Adjustment Provision."

10 k. SWG will increase its Low Income Ratepayer Assistance ("LIRA") program
11 eligibility to customers whose incomes are less than or equal to 200 percent of the
12 Federal Poverty Income Guidelines. SWG is allowed to collect 100 percent of the
13 discount through the LIRA surcharge.

14 l. SWG will advise customers of their option to request a detailed bill and its full
15 revenue decoupling adjustment will be a separate line item called the "Delivery Charge
16 Adjustment."

17 m. Staff's recommended rate design is adopted. In SWG's next rate case, the
18 Company will file a minimum system study to support its class cost of service study.
19 SWG is allowed to implement its requested Compression Service tariff subject to 50/50
20 sharing between shareholders and ratepayers for any losses resulting from the tariff.
21 SWG will not implement its requested Property Tax adjustor mechanism, but will be
22 allowed to implement a Property Tax Mechanism that establishes a regulatory asset
23 account to defer any changes in property tax expense for recovery in the Company's
24 next general rate case.

25 n. SWG will work with DVNG to develop a tariff and POA to govern a pilot
26 program for an expanded transportation service for certain qualifying SWG non-
27 residential customers.

28 ...

1 o. The Company's proposed tariff changes, as modified by Staff's
2 recommendations, will be accepted.

3 p. SWG shall include information about its hedging activities and the 12-month
4 gas price volatility in its Annual Gas Procurement Plan filings. SWG agrees to limit the
5 amount of gas hedged to not more than 25 percent of the annual forecasted demand
6 unless the Company first sends a letter to Staff advising of its intent to hedge above that
7 level.

8 q. All current ongoing compliance requirements, as identified in the pre-filed
9 testimony of Staff witness Brian Bozzo, will be eliminated, including quarterly
10 decoupling reports. SWG will work with Staff to develop a POA for each of its adjustor
11 mechanisms, to be submitted to Staff within 60 days of the effective date of this
12 Decision.

13 Positions of the Parties

14 SWG

15 51. SWG states that the settlement negotiations were open, transparent, inclusive, and
16 conducted at arms-length, which resulted in a thorough analysis, discussion and resolution.⁷ SWG
17 contends that the Settlement Agreement is in the public interest because it results in just and reasonable
18 rates and ensures continued safe and reliable natural gas service. Further, according to SWG, as a
19 compromise between disparate and conflicting interests, the Settlement Agreement avoids unnecessary
20 litigation expenses and delay.⁸ SWG claims that some of the benefits of the Settlement Agreement
21 include: rate stability, by retaining the basic customer charges, retaining full revenue decoupling, and
22 inclusion of a three-year rate case stay-out provision; expansion of the COYL and implementation of
23 the VSP Replacement Program to modernize and improve the safe and reliable operation of the
24 distribution program and provide a positive economic benefit to the state; and broadening participation
25 in the LIRA program.⁹

26 52. SWG notes that the Settlement Agreement's \$16 million revenue increase is

27 ⁷ Ex A-18 Brown Settlement Testimony at 3-4.

28 ⁸ *Id.* at 15-16.

⁹ *Id.* at 16-17.

1 approximately half the increase originally sought by SWG, and is only \$4.5 million greater than the
2 \$11.3 million recommended by Staff in pre-settlement testimony, and \$5.4 million greater than
3 RUCO's pre-settlement position of \$10.6 million.

4 53. SWG asserts that the agreed-upon capital structure and cost of capital are reasonable in
5 relation to the settling parties' recommendations in direct testimony, and that the agreed-upon ROE of
6 9.5 percent is very close to the authorized 2016 ROEs for the proxy group of gas utilities of 9.54
7 percent.¹⁰

8 54. SWG states that the Property Tax mechanism that allows the Company to defer changes
9 in property tax expense for recovery in a future rate case is necessary because the Company has little
10 managerial discretion over property tax expenses. SWG argues that the Property Tax mechanism will
11 minimize the negative impact to both the Company and customers associated with the volatility of
12 property tax expense between rate cases.¹¹

13 55. The COYL program was originally approved by the Commission in SWG's last rate
14 case with the goal of replacing all COYLs within the Company's Arizona service territory. In 2014,
15 the Commission approved an expansion of the COYL program to allow the Company to proactively
16 replace COYLs in conjunction with its other pipe replacement activities, regardless of whether the
17 COYL is leaking. The Settlement Agreement adopts the Company's proposal to further expand the
18 COYL program to allow a more targeted approach focused on COYLs that are leaking, and COYLs
19 that are not leaking but are in the same vicinity as other pipeline replacement activity. The Company
20 believes that this will allow it to proactively identify COYL customers, embark on an education
21 program to enlist willing customers, and mobilize crews to perform the replacement efficiently. SWG
22 states that the program enhancement is expected to increase the COYL replacement rate, as the
23 Company will be able to offer the COYL program to a greater number of customers.¹²

24 56. The VSP Replacement Program would accelerate replacement of pre-1970 vintage VSP
25 within the Company's Arizona service territory. The Settlement Agreement approves the Company's
26 proposed VSP Replacement Program, but modifies the Company's proposed cap on the VSP surcharge.

27 ¹⁰ *Id.* at 6.

28 ¹¹ *Id.* at 7-8.

¹² *Id.* at 8.

1 57. SWG asserts that the agreed-upon VSP Replacement Program will enhance public
2 safety by facilitating a proactive approach to the replacement of aging infrastructure, but will also offer
3 rate impact protections to customers by including a reasonable cap on the annual rate adjustment. SWG
4 states that the VSP mechanism provides a means for the Company to plan the replacement of aging
5 infrastructure, and timely and gradually adjust rates to account for the non-revenue producing nature
6 of those replacements. SWG states it has almost 6,000 miles of pre-1970s VSP in Arizona, and the
7 program facilitates replacing these facilities in a systematic and proactive manner over time,
8 minimizing the potential for a more reactive response which could result in a sharp increase in rates
9 over a shorter period of time. SWG states that in exchange for the enhanced safety and reliability
10 associated with the VSP replacements, the program results in a modest rate change and minimal
11 customer bill impact due to the \$0.015 per therm annual cap.¹³ SWG also asserts that the COYL
12 program and VSP replacement program represent a positive economic benefit to the state in terms of
13 jobs, gross state product, and state and local taxes.¹⁴

14 58. The Customer Choice Gas Supplier Pilot Program ("Customer Choice") is a
15 transportation service pilot program for certain non-residential customers that do not currently qualify
16 for transportation service. SWG commits to work with Staff and DVNG to develop a pilot program
17 consistent with five principles: (1) the program is revenue neutral; (2) the program is designed to ensure
18 no interclass subsidies, such that any incremental costs are borne by the customer class availing
19 themselves of the pilot program; (3) there will be a governance structure to address Commission
20 registration of third-party gas providers, customer complaints, billing, a supplier code of conduct and
21 Commission review; (4) gradualism in designing and rolling out the program; and (5) a beta test of five
22 customers must be conducted to ensure the agreed-upon program framework is functioning as
23 anticipated, prior to opening the program to other suppliers and customers.

24 59. SWG states that it supports offering choice programs to qualifying customers, so long
25 as the appropriate parameters are in place. The Company believes that the Settlement Agreement
26 provides the proper framework to guide the development of a Customer Choice pilot program.¹⁵

27 ¹³ *Id.* at 9-10.

28 ¹⁴ *Id.* at 10.

¹⁵ *Id.* at 11.

1 60. In the Company's last general rate case, the Commission approved a settlement that
2 resulted in the implementation of full revenue decoupling. Under this methodology, the Company
3 adjusts rates to reflect any difference between Commission-authorized revenues per customer and
4 actual revenues per customers. The decoupling mechanism consists of two components—a monthly
5 weather component that adjusts winter bills to reflect differences in customer consumption between
6 actual weather during the billing cycle and the average weather used to calculate rates, and an annual
7 component that adjusts rates to reflect any differences between the non-gas revenues authorized by the
8 Commission and the actual non-gas revenue experienced by the Company.

9 61. SWG asserts that the Company's full revenue decoupling mechanism has performed as
10 intended by limiting the Company's recovery of margin to the authorized margin per customer – “no
11 more, no less.”¹⁶ SWG states that customers have benefited from both a lower embedded cost of debt
12 and annual credits totaling approximately \$33 million to date.

13 62. The Settlement Agreement continues full revenue decoupling, but eliminates the
14 monthly weather component. SWG asserts that the modification results in a simplified methodology,
15 with an adjustment that is easier for customers to understand. In order to more accurately reflect the
16 nature of the adjustment, the mechanism will be referred to as the “Delivery Charge Adjustment
17 Provision” (“DCA”). The DCA will replace the existing EEP line item on the customer bills.

18 63. As part of the Settlement Agreement, SWG has agreed to advise customers of the option
19 to receive a detailed bill, both online and in the notice of the rate adjustment approved in this
20 proceeding. The Company will notify customers once a year of the availability of receiving a detailed
21 bill. SWG asserts that the simplified bill presentation summarizes the information that is included in
22 the detailed bill format. The summarized information in the simplified bill includes the quantity of gas
23 consumed and the costs incurred for the delivery of that gas, while the detailed bill contains all of the
24 calculations that are performed to determine the costs incurred, including proration calculations when
25 customer rates are adjusted during the billing period.

26 64. SWG states that it modified its bill format in order to better serve its customers' needs
27

28 ¹⁶ *Id.* at 12.

1 and desires.¹⁷ In developing its simplified bill by consulting with RUCO and Staff, SWG states that the
2 parties concluded most customers would be better served with the simplified bill format, but that the
3 detailed bill would be made available to any customer who wishes to receive it.

4 65. In its February 21, 2017 filing, SWG confirmed that if the Commission determines that
5 the Company should provide notice to its customers each month (instead of annually) the Company
6 has the ability to incorporate the following statement on the bill: "Customers may request a detailed
7 version of their gas bill by accessing MyAccount or calling 1-877-860-6020." SWG states that it
8 currently does not have programming that allows customers to "toggle" back and forth between
9 simplified and detailed versions of their bill on the website, and to provide such capability would
10 require programming changes and costs that "are not insignificant" and that were not contemplated by
11 the settling parties.

12 **RUCO**

13 66. RUCO believes that the negotiations that led to the Settlement Agreement were
14 conducted in a fair and reasonable manner that allowed each party the opportunity to participate and
15 express their positions fully.¹⁸ RUCO, a signatory, supports the Settlement Agreement as being in the
16 public interest, and finds the more significant benefits to residential consumers to include: (1) a revenue
17 increase that is approximately half of what the Company originally requested; (2) a lower cost of equity
18 than SWG requested; (3) an average monthly bill increase of 1.09 percent; (4) an expanded COYL
19 program; (5) an agreement for the joint development of the POA for the VSP Replacement Program;
20 (6) the deferral for future recovery of costs incurred prior to December 31, 2020 related to the
21 construction of the LGN facility; (7) increased eligibility for the low income assistance program; (8) a
22 rate stay-out provision until May 1, 2019; (9) a Property Tax mechanism that allows for the deferral of
23 changes in the property tax expense; and (10) continued use of full revenue decoupling with
24 modifications.¹⁹

25 67. RUCO does not support full revenue decoupling, but supports the Settlement
26 Agreement. RUCO sees decoupling as just one issue in the rate case, while the Settlement Agreement

27 ¹⁷ *Id.* at 14.

28 ¹⁸ Ex RUCO-1 Tenney Settlement Testimony at 2.

¹⁹ *Id.* at 4.

1 takes into consideration many issues and considers them as a whole. RUCO believes that as a whole,
 2 the Settlement Agreement is a fair and reasonable resolution of all the issues, and overall the favorable
 3 elements of the Agreement outweigh the unfavorable ones from RUCO's perspective.²⁰

4 **Mr. Gayer**

5 68. Mr. Gayer states that Section 10.2 of the Settlement, addressing Revenue Decoupling,
 6 should be amended to provide that leftover balances due from the old EEP Annual Adjustment shall be
 7 repaid in monthly installments during 2017.²¹

8 69. Mr. Gayer also requests that Section 12.1 of the Settlement Agreement be modified to
 9 require a fully itemized bill as the default, with an option to request a simplified bill.²² Mr. Gayer
 10 believes that SWG has a history of deception in connection with decoupling, and that detailed itemized
 11 bills would discourage further deceptions.

12 70. In his February 22, 2017 Response to late-filed SWG Exhibit A-19, Mr. Gayer continues
 13 to assert that the itemized bill should be the default. Mr. Gayer claims that although SWG does not
 14 agree that the itemized bill should be the default, neither does it explicitly object.²³ Mr. Gayer argues
 15 that the Company has not surveyed customers about the itemized bill, has not explained how customers
 16 would know what they are missing without a detailed bill, and could not identify any added cost of a
 17 detailed bill. Thus, according to Mr. Gayer, the Company did not demonstrate a substantial burden
 18 from providing the itemized bill.

19 **DVNG**

20 71. DVNG believes that the settlement discussions were "open, transparent, respectful and
 21 inclusive of all parties who participated" with "robust discussion" of all issues.²⁴ DVNG signed the
 22 Settlement Agreement and believes its terms are just, reasonable, fair and in the public interest as it
 23 results in just and reasonable rates and resolves all material issues, thus avoiding unnecessary litigation

24
 25 ²⁰ *Id.* at 5. RUCO points to Section 20.1 of the Settlement Agreement which states that to achieve consensus, participants
 26 accept positions that they would otherwise be unwilling to accept and that acceptance of a specific element is not to be
 considered precedent for acceptance of that element in any other context. RUCO states that it does not support revenue
 decoupling but accepts it in this case as a necessary provision for settlement.

27 ²¹ Ex Gayer-2 Gayer Objections to Proposed Settlement at 1.

28 ²² *Id.* at 2.

²³ Hearing Transcript at 42-44 and 46-55.

²⁴ Ex DVNG-3 Rohach Settlement Testimony at 1.

1 expense and delay.²⁵

2 AIC

3 72. AIC supports the Settlement Agreement because it believes its provisions are fair and
4 beneficial to the Company, its customers, and the public in general. AIC contends the outcome is
5 balanced and produces a more efficient resolution of the issues than one accomplished through a
6 litigated proceeding. AIC notes that credit rating agencies view settlement agreements favorably
7 because they often result in more expedient and creative resolutions that balance the positions of diverse
8 parties. In addition, according to AIC, the consensus achieved during a settlement is often viewed as
9 indicative of a positive regulatory environment, which enhances a utility's credit quality.²⁶

10 73. AIC also believes the revenue increase provides the Company with a realistic
11 opportunity to recover its costs of serving customers and earn a reasonable return on investment.

12 74. AIC states that the return on equity of 9.5 percent is reasonable given the other
13 provisions of the agreement and will enable the Company to attract capital for infrastructure investment
14 at the best available terms and rates.²⁷

15 75. AIC asserts that the VSP Replacement Program and COYL program provide the
16 Company with cash flow to support investments to replace aging infrastructure while also promoting
17 rate gradualism for customers.²⁸

18 76. AIC claims that it is important that the Settlement Agreement retains full revenue
19 decoupling because the mechanism reduces earnings volatility and affords SWG a more realistic
20 opportunity to earn its authorized rate of return.²⁹ AIC contends that the decoupling mechanism protects
21 customers from large rate increases by capping the amount of the adjustment, and that the mechanism
22 puts SWG in a better position to promote conservation measures. AIC also asserts that credit rating
23 agencies identify the decoupling mechanism as an important factor in credit rating improvement,
24 leading to a lower overall cost of capital.

25 . . .

26 ²⁵ *Id.* at 2-3.

27 ²⁶ Ex AIC-1 at 4.

27 ²⁷ *Id.* at 5-6.

28 ²⁸ *Id.* at 6.

28 ²⁹ *Id.* at 5.

1 ACAA

2 77. ACAA supports the Settlement Agreement because it is a reasonable outcome to
3 negotiations that were conducted in good faith.³⁰

4 Staff

5 78. Staff asserts that the settlement process was open, transparent and inclusive, with all
6 parties receiving notice of the settlement meetings and being accorded an opportunity to raise, discuss
7 and propose resolutions to any issue.³¹ Staff believes that all parties zealously advocated for and
8 represented the interests of their constituents. Staff characterizes the discussions as candid but
9 professional.³² Staff believes that the Settlement is fair, balanced, and in the public interest because it
10 includes many benefits for customers including: (1) commitments to expand the low-income eligibility;
11 (2) rate stability; (3) continuation and expansion of the COYL program; (4) establishment of a VSP
12 Replacement Program; (5) reduced Depreciation Expense; (6) promotion of customer choice of gas
13 suppliers while ensuring revenue neutrality; and (7) a rate design with no increase in the monthly basic
14 service charge.³³

15 79. Staff believes that the recommended revenue requirement will provide SWG with
16 adequate funds to provide reliable and safe service, while also ensuring financial health for the
17 Company. Staff asserts that the full revenue decoupling mechanism will maintain SWG's revenue
18 stability and have a positive impact on the Company's financial profile and credit ratings. In addition,
19 Staff states the expansion of the COYL program and the VSP Replacement Program, with their cost
20 recovery mechanisms, will bolster the Company's ability to proactively ensure its system continues to
21 provide safe and reliable service.³⁴

22 80. Staff states that one of the major policy considerations presented in this docket was the
23 replacement of vintage steel pipe on an accelerated basis.³⁵ Staff originally opposed the Company's
24 proposed Gas Infrastructure Mechanism which would have recovered costs associated with both the
25

26 ³⁰ ACAA-2 Zwick Settlement Testimony at 1.

27 ³¹ Ex S-3 Abinah Settlement Testimony at 2.

28 ³² *Id.* at 3.

³³ *Id.* at 9-10.

³⁴ *Id.* at 10.

³⁵ *Id.* at 11.

COYL and the VSP Replacement Programs with an annual cap on the proposed surcharge of \$0.03 per therm. Staff initially recommended that the Company implement an accelerated VSP Replacement Program and address cost recovery in a future filing.³⁶ However, the Settlement Agreement allows for the VSP Replacement Program with the surcharge capped of \$0.015 per therm per year. Staff explains it was able to support the VSP adjustor mechanism in the Settlement because the surcharge cap was reduced from \$0.03 per therm for a combined COYL/VSP adjustor to \$0.015 per therm for the VSP adjustor alone and retaining the COYL adjustor at \$0.01 per therm. Staff asserts that the lower cap “significantly reduces the level of rate impact ratepayers would experience” and the lower cap, if combined with appropriate safeguards and limitations build into the POA, “should enhance the potential cost benefits of replacing VSP on an accelerated and proactive basis.”³⁷ Furthermore, Staff asserts the VSP replacement program enhances the safety and reliability of SWG’s distribution and transmission systems.

Analysis and Resolution

81. The Settlement Agreement adopts a capital structure and cost of capital that are reasonable in relation to the settling parties’ recommendations in direct testimony, and the authorized returns of other gas utilities.

| | <u>Company Proposal</u> | <u>Staff Proposal</u> | <u>RUCO Proposal</u> | <u>Settlement Agreement</u> |
|----------------------|-----------------------------|---------------------------|--------------------------|---------------------------------|
| Debt | 48.31% | 48.31% | 29.02% | 48.3% |
| Equity | 51.89% | 51.69% | 50.98% | 51.7% |
| ROE | 10.25% | 9.25% | 9.39% | 9.5% |
| Cost of Debt | 5.21% | 5.21% | 5.20% | 5.2% |
| Fair Value ROR | 6.01% | 5.61% | 5.67% | 5.71% |
| Fair Value Increment | 0.93% | 0.93% | 1.04% | 0.93% |

82. The Settlement Agreement adopts Staff’s recommended Original Cost Rate Base, Reconstruction Cost New less Depreciation rate base, and FVRB.

83. The Settlement Agreement does not change the current effective basic customer charge for all customer classes, and provides for rates that would increase the average residential summer bill (11 therms) by \$0.78, or 0.78 percent, from \$21.89 to \$22.06, and the average residential winter bill (40 therms) by \$0.63, or 1.23 percent, from \$51.38 to \$52.01.³⁸

³⁶ *Id.* at 11-12.

³⁷ *Id.* at 12.

³⁸ Final Schedules at 9.

1 84. The Settlement Agreement retains revenue decoupling, with reasonable modifications
2 that simplify the calculations.

3 85. The only disputed issue in this case is whether the default customer bill should be the
4 simplified version advocated by SWG (and accepted by the signatory parties), or the fully itemized
5 version advanced by Mr. Gayer. The simplified bill contains line items for various charges, but omits
6 the detailed calculations for the charges. The result is a cleaner looking bill that is easier to read. Under
7 the Company's proposal, any customer may request the fully itemized bill.

8 86. Section 12 of the Settlement Agreement provides that SWG will notify customers at
9 least once per year that they may request a detailed bill. At the hearing, the ALJ suggested a
10 compromise between the proposal in the Settlement and Mr. Gayer's request that all bills include the
11 detailed analysis by default unless a simplified version is requested. The Company was directed to file
12 a late-filed exhibit that describes whether SWG could notify customers on each monthly bill how a
13 detailed bill could be requested. As indicated above, the Company's late-filed Exhibit 19 indicates that
14 SWG would be willing to include a line on each customer's monthly bill stating: "Customers may
15 request a detailed version of their gas bill by accessing MyAccount or calling 1-877-860-6020."
16 Although we understand that Mr. Gayer advocates that a detailed bill be the default format for all
17 customers, we believe that the Company's modified proposal to include directions on each bill for how
18 to obtain the detailed bill format is reasonable. We therefore approve the simplified bill format as the
19 default, and direct SWG to include the notice stated above on each monthly bill regarding how to obtain
20 a detailed bill.

21 87. Section 11 of the Settlement Agreement requires the Company to increase the Low
22 Income Ratepayer Assistance ("LIRA") program eligibility to customers whose incomes are less than
23 or equal to 200% of the Federal Poverty Income Guidelines. In our UNS Electric and Tucson Electric
24 Power decisions, we ordered those utilities to enroll more eligible consumers with an automatic
25 enrollment program. (*See* Decision Nos. 75697, at 71-72; and 75975, at 72). Likewise, we direct the
26 Company to investigate instituting an automatic enrollment program for LIRA, and if it is unable to
27 implement the program by December 31, 2017, to file a report with the Commission explaining why
28 an automatic or streamlined process could not be implemented, or would not be cost effective or

88. Based on the totality of circumstances, we find that the Settlement Agreement, as modified herein with respect to notice concerning availability of a detailed bill and adoption of an automatic enrollment process for LIRA, results in fair and just rates, is in the public interest, and should be approved.

CONCLUSIONS OF LAW

1. SWG is a public service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. §§ 40-250, 40-251, and 40-367.

2. The Commission has jurisdiction over SWG and the subject matter of the application.

3. Notice of the application was provided in accordance with the law.

4. Adoption of the Settlement Agreement, as discussed herein, is in the public interest.

5. The rates, charges, and conditions of service established herein are just and reasonable.

6. For purposes of this proceeding, SWG's jurisdictional FVRB is determined to be \$1,801,065,079.

ORDER

IT IS THEREFORE ORDERED that the Settlement Agreement dated January 20, 2016, and attached to this Decision as Exhibit A, is hereby approved as discussed and modified herein concerning monthly notices of how to obtain more detailed bills.

IT IS FURTHER ORDERED that Southwest Gas Corporation is hereby directed to file with the Commission, on or before March 31, 2017, revised schedules of rates and charges consistent with Exhibit A and the findings herein.

IT IS FURTHER ORDERED that the revised schedules of rates and charges shall be effective for all service rendered on and after April 1, 2017.

IT IS FURTHER ORDERED that Southwest Gas Corporation shall notify its affected customers of the revised schedules of rates and charges authorized herein by means of an insert in its next regularly scheduled billing and by posting on its website, in a form acceptable to the Commission's Utilities Division Staff.

IT IS FURTHER ORDERED that Southwest Gas Corporation shall include a statement on each month's bill concerning how customers may obtain detailed bills, as set forth in late-filed Exhibit A-

1 19 and discussed herein.

2 IT IS FURTHER ORDERED that Southwest Gas Corporation shall implement and comply
3 with the terms of the Settlement Agreement as discussed herein, including filing all reports, studies,
4 and plans as set forth in the Settlement Agreement and herein.

5 IT IS FURTHER ORDERED that Southwest Gas Corporation shall comply with the applicable
6 timeframes set forth in the Settlement Agreement with respect to developing and submitting various
7 Plans of Administration.

8 IT IS FURTHER ORDERED that Southwest Gas Corporation shall not file a general rate
9 application prior to May 1, 2019. However, Southwest Gas Corporation is not prohibited from filing
10 other interim rate applications as necessary, including demand side management surcharge resets or
11 requests for accounting deferral orders to comply with new or revised pipeline safety requirements or
12 other unfunded state or federal mandates.

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1 IT IS FURTHER ORDERED that Southwest Gas Corporation shall investigate instituting an
2 automatic enrollment program for LIRA, and if it is unable to implement the program by December
3 31, 2017, file a report with the Commission explaining why an automatic or streamlined process could
4 not be implemented, or would not be cost effective or beneficial.

5 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

6 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

7 

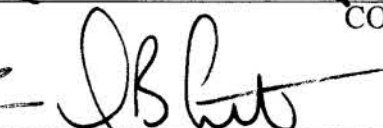
8 CHAIRMAN FORESE

9 

10 COMMISSIONER DUNN

11 

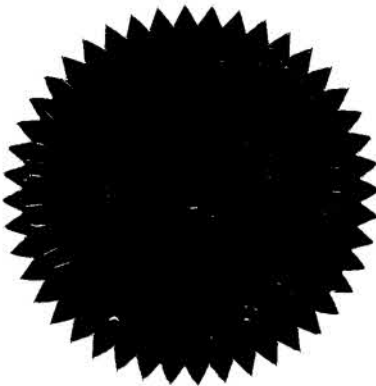
12 COMMISSIONER TOBIN

13 

14 COMMISSIONER LITTLE

15 

16 COMMISSIONER BURNS



18 IN WITNESS WHEREOF, I, TED VOGT, Executive Director of
19 the Arizona Corporation Commission, have hereunto set my
20 hand and caused the official seal of the Commission to be affixed
21 at the Capitol, in the City of Phoenix, this 11th day
22 of April 2017.

23 

24 TED VOGT
25 EXECUTIVE DIRECTOR

26 DISSENT _____

27 DISSENT _____
28 DDN:dap(rt)

SERVICE LIST FOR:

SOUTHWEST GAS CORPORATION

DOCKET NO.:

G-01551A-17-0107

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EXHIBIT A**PROPOSED SETTLEMENT AGREEMENT OF DOCKET NO. G-01551A-16-0107 SOUTHWEST GAS CORPORATION REQUEST FOR RATE ADJUSTMENT**

The purpose of this Settlement Agreement ("Agreement") is to settle disputed issues related to Docket No. G-01551A-16-0107, Southwest Gas Corporation's ("SWG" or "Company") application to increase rates. This Agreement is entered into by the following entities:

Arizona Corporation Commission Utilities Division Staff ("Staff")
Southwest Gas Corporation ("SWG")
Residential Utility Consumer Office ("RUCO")

...

Arizona Community Action Association ("ACAA")
Property Owners and Residents Association ("PORA")
Desert Valley Natural Gas, LLC ("Desert Valley")
Arizona Investment Council ("AIC")

These entities shall be referred to collectively as "Signatories;" a single entity shall be referred to as "Signatory."

I. RECITALS

- 1.1 SWG filed the rate application underlying Docket No. G-01551A-16-0107 on May 2, 2016. Staff found the application sufficient on June 1, 2016.
- 1.2 Subsequently, the Arizona Corporation Commission ("Commission") approved applications to intervene filed by September 2, 2016.
- 1.3 SWG filed a notice of settlement discussions on December 12, 2016. Settlement discussions began on December 15, 2016. The settlement discussions were open, transparent, and inclusive of all parties to this Docket who desired to participate. All parties to this Docket were notified of the settlement discussion process, were encouraged to participate in the negotiations, and were provided with an equal opportunity to participate. SWG filed a Preliminary Term Sheet regarding this matter on December 29, 2016.
- 1.4 The terms of this Agreement are just, reasonable, fair, and in the public interest in that they, among other things, establish just and reasonable rates and ensure continued safe and reliable natural gas service for SWG customers; promote the convenience, comfort and safety, and the preservation of health, of the employees and patrons of SWG; resolve the issues raised during this proceeding; and avoid unnecessary litigation expense and delay.
- 1.5 The Signatories believe that this Agreement balances the interests of both SWG and its customers. The significant provisions of this Agreement include:
 - A \$16 million base rate increase;
 - No change to the approved Return on Equity of 9.5 percent;
 - A three-year rate case stay out, in which SWG agrees not to file any new general rate case filing until at least May 1, 2019;
 - Retention of the Company's full revenue decoupling mechanism with modifications to simplify and improve the methodology;
 - Increasing eligibility for the low income ratepayer assistance program to 200% of the federal poverty guideline level;
 - Implementation of a Vintage Steel Pipe replacement program to improve safe and reliable operation of the Company's system.

- 1.6 The Signatories agree to ask the Commission (1) to find that the terms and conditions of this Agreement are just and reasonable and in the public interest, along with any and all other necessary findings, and (2) to approve the Agreement and order that it and the rates contained herein become effective following the issuance of a final Order in this Docket by the Commission. The Signatories agree to work together to pursue an effective date of May 1, 2017.

TERMS AND CONDITIONS

II. RATE CASE STABILITY PROVISION

- 2.1 SWG agrees not to file its next general rate case prior to May 1, 2019.

III. RATE INCREASE

- 3.1 SWG shall receive a base rate increase of \$16 million over its adjusted test year margin of \$481,681,406, for a total revenue requirement of \$497,681,406.
- 3.2 The Company's jurisdictional fair value rate base used to establish the rates agreed to herein is \$1,801,065,079.

IV. BILL IMPACT

- 4.1 When new rates become effective, the average annual bill for residential customers will increase by 1.09 percent.

V. COST OF CAPITAL

- 5.1 A capital structure comprised of 48.3 percent long-term debt and 51.7 percent common equity shall be adopted.
- 5.2 A return on common equity of 9.5 percent and an embedded cost of long-term debt of 5.2 percent shall be adopted.
- 5.3 An overall fair value rate of return of 5.71 percent with a cost rate of 0.93 percent on fair value rate base increment shall be adopted.
- 5.4 The provisions set forth herein regarding the quantification of cost of capital, fair value rate base, fair value rate of return, and the revenue requirement are made for purposes of settlement only and should not be construed as admissions against interest or waivers of litigation positions related to other or future cases.

VI. DEPRECIATION

- 6.1 The depreciation rates set forth on Attachment 1 to this Agreement shall be adopted. The estimated overall reduction in the Company's depreciation expense is \$44,743,206.
- 6.2 In conjunction with the Company's next general rate case filing, SWG will perform a detailed and objective cost of removal study to determine the validity of significant increases in cost of removal charges recorded in 2015, and for any that may occur after 2015 and before the next rate case. In the meantime, the Company shall review the cost of removal charges recorded in mains and services accumulated depreciation accounts in 2015 to determine whether charges, if any, should be transferred to operations, maintenance, or other accounts. This review would help ensure the account balances of mains and services accumulated depreciation are fairly stated going forward into the next rate case. SWG shall provide the results of such study and review as part of its next general rate case filing.

VII. CUSTOMER OWNED YARD LINE EXPANSION

- 7.1 SWG shall be allowed to expand its Customer Owned Yard Line ("COYL") program as discussed within the Pre-filed Direct Testimony of Company Witnesses Lang and Giesecking.
- 7.2 SWG will work with Staff to develop a Plan of Administration for the COYL program consistent with Section 17.2 of this Agreement, to include revised annual reports consistent with the expanded COYL program. The annual rate adjustment for the COYL program surcharge will continue to be capped at \$0.01 per therm per year, and shall apply to all recorded full margin therms sold.

VIII. VINTAGE STEEL PIPE REPLACEMENT

- 8.1 The Company shall be allowed to implement its proposed Vintage Steel Pipe ("VSP") replacement program. The annual rate adjustment for the VSP program surcharge will be capped at \$0.015 per therm per year and shall apply to all recorded full margin therms sold.
- 8.2 The effective period for replacements under the VSP program will be until the effective date of new permanent rates approved by the Commission in SWG's next general rate case application unless extended by the Commission.

- 8.3 The Company, Staff, and RUCO shall work to jointly develop a draft Plan of Administration that will be circulated to the parties to this docket, and will present the Plan of Administration for Commission consideration in conjunction with its consideration of the Administrative Law Judge's recommendation regarding the terms of this Agreement.

IX. LIQUIFIED NATURAL GAS FACILITY

- 9.1 The Company shall be authorized to extend the deferral of the revenue requirement associated with all costs flowing from the construction of the Tucson LNG Facility incurred before December 31, 2020.
- 9.2 The deferred amounts may be considered for recovery during the Company's next general rate case proceeding.

X. REVENUE DECOUPLING MECHANISM

- 10.1 The Company shall continue to utilize a full revenue decoupling mechanism subject to the modification that the Energy Efficiency Enabling Provision ("EEP") will no longer utilize a monthly weather adjustor as discussed in the Pre-filed Rate Design Direct Testimony of Staff Witness Lubow.
- 10.2 The Company shall modify its tariff to change the name of its decoupling mechanism from "Energy Efficiency Enabling Provision" to "Delivery Charge Adjustment Provision", and will make any other changes necessary, including changes to its website and other outreach materials, to reflect the elimination of a separate monthly weather adjustor.
- 10.3 Southwest Gas shall file in April each year a revised annual report and application to adjust rates to reflect any differences between the authorized margin per customer and the actual margin per customer collected during the year.

The revised annual report shall replace the annual report previously filed for the Company's annual rate adjustment for revenue decoupling. The revised annual report shall reflect Southwest Gas' experience from the previous year and include sufficient information for Staff to audit the proposed rate change.

XI. LOW INCOME PROGRAMS

- 11.1 The Company shall increase its Low Income Ratepayer Assistance ("LIRA") program eligibility to customers whose incomes are less than or equal to 200% of the Federal Poverty Income Guidelines.

11.2 The Company shall be allowed to collect 100% of the discount through the LIRA surcharge.

XII. BILL PRESENTATION

12.1 The Company will advise customers of their option to request a detailed bill, both on its website and on the bill insert that notifies customers of the rate changes approved in this proceeding. The Company shall also provide such advice to customers at least once a year.

12.2 The Company's full revenue decoupling adjustment will be included on customer bills as a separate line item, and will be referred to as the "Delivery Charge Adjustment" instead of the "EEP Annual Adjustment" to better reflect the nature of the rate adjustment.

XIII. RATE DESIGN

13.1 Staff's recommended rate design and cost allocation presented by Staff Witness Lubow shall be adopted, subject to any conforming changes necessary to effectuate the overall cost of service adopted by this Agreement.

13.2 As recommended by Staff Witness Lubow, SWG shall file a minimum system study in its next general rate case to support the class cost of service study included in that filing.

13.3 SWG will not establish a Multi-Family Dwelling Service and Main Extension tariff at this time.

13.4 SWG shall be allowed to implement its requested Compression Service tariff, subject to 50/50 risk sharing between shareholders and ratepayers for any losses resulting from this tariff.

13.5 SWG shall not implement its proposed Property Tax Adjustor Mechanism at this time. In its place, SWG shall be permitted to implement a Property Tax Mechanism that establishes a regulatory asset account to defer any changes in property tax expense for recovery in the Company's next general rate case.

XIV. CUSTOMER CHOICE GAS SUPPLIER PILOT IMPLEMENTATION

14.1 SWG commits to work with Desert Valley Natural Gas (DVNG) and Staff to develop a new tariff, or modifications to the Company's existing tariff, as well as a Plan of Administration that will govern a pilot program for an expanded

transportation service for certain qualifying Southwest Gas non-residential customers in Arizona. The Tariff and Plan of Administration must address the following key principles:

14.2 Revenue neutral:

The program must be revenue neutral and include sufficient regulatory mechanisms to address the recovery of incremental costs to ensure revenue neutrality, including reasonable limitations on customers switching between rate schedules.

14.3 No Interclass Subsidies:

The program must be designed to ensure that any incremental costs of the program are borne by the customer class availing themselves of the pilot program.

14.4 Governance structure:

- (a) There must be processes in place for allowing all eligible third-party providers the opportunity to participate in the pilot, addressing customer complaints against third-party providers, Commission registration of third-party providers, customers that change third-party providers during the course of the pilot program or wish to voluntarily exit the pilot program, and communications (including the delivery of the bill and the billing process) from third-party providers to Southwest Gas customers.
- (b) Process for filing with the ACC the proposed customer communication plan to be utilized by each third-party provider and the proposed Code of Conduct to be adhered to by third-party suppliers.
- (c) Periodic ACC review process to ensure the program is running as intended and operating within the key parameters identified by the parties, including identifying and quantifying the benefits to Southwest Gas customers who participate in the program – with findings as to the continuation of the pilot program, and any requested program modifications or expansions.

14.5 Gradualism:

Parties must define the appropriate scope of the pilot program – including identifying sufficient parameters on eligible customers (usage level) and a reasonable cap on the number of participating customers to minimize the risk of

not being revenue neutral and the retain the ability to address unintended consequences of the program.

14.6 Beta Test:

The Plan of Administration will include provisions for a Beta Test that, once the Tariff and Plan of Administration are approved, will test the pilot program framework on a group of five mutually agreed upon Southwest Gas commercial customers (Test Group). The Test Group will be based in a single delivery code, but will represent different industries. The Beta Test will help ensure that the pilot program framework is functioning as anticipated, prior to opening the pilot program up to other suppliers and Southwest Gas customers.

14.7 Upon agreement of SWG, DVNG and Staff as to the above, the draft Tariff and Plan of Administration will be circulated to the parties to this docket, with the intent of presenting them for Commission consideration in conjunction with its consideration of the Administrative Law Judge's recommendation regarding the terms of this Agreement. In no event shall the Tariff and Plan of Administration be submitted for Commission consideration later than 60 days after the effective date of an order approving this agreement.

XV. TARIFF AND RATE SCHEDULES

15.1 The Company's proposed tariff changes contained within the Pre-filed Direct Testimony of Company Witness Berger are accepted subject to the modifications provided in the Pre-filed Direct Testimony of Staff Witness McNeely-Kirwin.

XVI. GAS PROCUREMENT

16.1 The Company shall include with its Annual Gas Procurement Plan filings information showing its hedging activities by month such that it reflects the volume and percentage of gas hedged. SWG shall include with the filing a summary of the 12-month gas price volatility with and without Arizona Price Stability Purchases ("APSP"), and illustrate any price differences resulting from the hedging practices and procedures it employs in Arizona.

16.2 As recommended in the Pre-filed Direct Testimony of Staff Witness Lubow, the Company shall modify its APSP program to limit the amount of gas hedged to not more than 25 percent of the annual forecasted demand in Arizona for any forecast period, unless the Company first sends a letter to Staff advising of its intent to hedge above this level.

XVII. COMPLIANCE MATTERS

17.1 All compliance items identified in the Pre-filed Direct Testimony of Staff Witness Bozzo shall be eliminated, including the quarterly decoupling reports.

17.2 The Company shall work with Staff to develop a Plan of Administration for each of its adjustor mechanisms as recommended in the Pre-filed Direct Testimony of Staff Witness Paladino. The Plans of Administration shall be filed for Staff evaluation no later than 60 days after the effective date of a Commission order approving this Agreement.

XVIII. FORCE MAJEURE PROVISION

18.1 Nothing in this Agreement shall prevent SWG from requesting a change to its base rates in the event of conditions or circumstances that constitute an emergency. For the purposes of this Agreement, the term "emergency" is limited to an extraordinary event that, in the Commission's judgment, requires base rate relief in order to protect the public interest. This provision is not intended to preclude SWG from seeking rate relief or any Signatory from petitioning the Commission to examine the reasonableness of SWG's rates pursuant to this Section in the event of significant regulatory developments that materially impact the financial results expected under the terms of this Agreement. This provision is not intended to

preclude any party, including any Signatory to this Agreement, from opposing an application for rate relief filed by SWG pursuant to this paragraph. Nothing in this provision is intended to limit the Commission's ability to change rates at any time pursuant to its lawful authority.

XIX. COMMISSION EVALUATION OF PROPOSED SETTLEMENT

- 19.1 All currently filed testimony and exhibits shall be offered into the Commission's record as evidence. The filing and submission of rebuttal testimony and exhibits from Southwest Gas, the filing and submission of surrebuttal testimony and exhibits from Staff and Intervenors, and the filing and submission of rejoinder testimony and exhibits by Southwest Gas shall be waived.
- 19.2 The Signatories recognize that Staff does not have the power to bind the Commission. For purposes of proposing a settlement agreement, Staff acts in the same manner as any party to a Commission proceeding.
- 19.3 This Agreement shall serve as a procedural device by which the Signatories will submit their proposed settlement of SWG's pending rate case, Docket No. G-01551A-16-0107, to the Commission.
- 19.4 The Signatories recognize that the Commission will independently consider and evaluate the terms of this Agreement. If the Commission issues an order adopting all material terms of this Agreement, such action shall constitute Commission approval of the Agreement. Thereafter, the Signatories shall abide by the terms as approved by the Commission.
- 19.5 If the Commission fails to issue an order adopting all material terms of this Agreement, any or all of the Signatories may withdraw from this Agreement, and such Signatory or Signatories may pursue without prejudice their respective remedies at law. For purposes of this Agreement, whether a term is material shall be left to the discretion of the Signatory choosing to withdraw from the Agreement. If a Signatory withdraws from the Agreement pursuant to this paragraph and files an application for rehearing, the other Signatories, except for Staff, shall support the application for rehearing by filing a document with the Commission that supports approval of the Agreement in its entirety. Staff shall not be obligated to file any document or take any position regarding the withdrawing Signatory's application for rehearing.

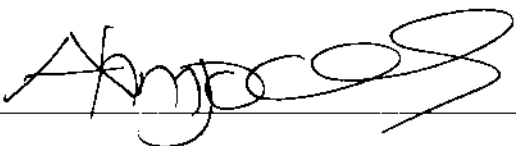
XX. MISCELLANEOUS PROVISIONS

- 20.1 This case has attracted a number of participants with widely diverse interests. To achieve consensus for settlement, many participants are accepting positions that, in any other circumstances, they would be unwilling to accept. They are doing so because this Agreement, as a whole, is consistent with their long-term interests and with the broad public interest. The acceptance by any Signatory of a specific element of this Agreement shall not be considered as precedent for acceptance of that element in any other context.
- 20.2 No Signatory is bound by any position asserted in negotiations, except as expressly stated in this Agreement. No Signatory shall offer evidence of conduct or statements made in the course of negotiating this Agreement before this Commission, any other regulatory agency, or any court.
- 20.3 Nothing in this Agreement shall be construed as an admission by any Signatory as to the reasonableness or unreasonableness, or lawfulness or unlawfulness, of any position previously taken by any other Signatory in this proceeding.
- 20.4 Neither this Agreement nor any of the positions taken in this Agreement by any of the Signatories may be referred to, cited, or relied upon as precedent in any proceeding before the Commission, any other regulatory agency, or any court for any purpose except to secure approval of this Agreement and enforce its terms.
- 20.5 To the extent any provision of this Agreement is inconsistent with any existing Commission order, rule, or regulation, this Agreement shall control.
- 20.6 Each of the terms of this Agreement is in consideration of all other terms of this Agreement. Accordingly, the terms are not severable.
- 20.7 The Signatories shall make reasonable and good faith efforts necessary to obtain a Commission order approving this Agreement. The Signatories shall support and defend this Agreement before the Commission. Subject to paragraph 20.2, if the Commission adopts an order approving all material terms of the Agreement, the Signatories will support and defend the Commission's order before any court or regulatory agency in which it may be at issue.
- 20.8 This Agreement may be executed in any number of counterparts and by each Signatory on separate counterparts, each of which when so executed and delivered shall be deemed an original and all of which taken together shall constitute one and the same instrument. This Agreement may also be executed electronically or by facsimile.

ATTACHMENT A

Southwest Gas Corporation
Docket No. G-01551A-16-0107
Settlement Depreciation Rates

| Account | Description | Existing Company Rates | Staff Proposed Rates | Company Proposed Rates | Settlement Proposal |
|-------------------------|-------------------------------------|---|----------------------------|------------------------------|------------------------|
| <u>Arizona Direct</u> | | | | | |
| 301.00 | Organization | ---non-depreciable/fully depreciated/amortized--- | | | |
| 302.00 | Franchise & Consents | ---non-depreciable/fully depreciated/amortized--- | | | |
| 303.00 | Miscellaneous Intangible | ---non-depreciable/fully depreciated/amortized--- | | | |
| 374.10 | Land & Land Rights | ---non-depreciable/fully depreciated/amortized--- | | | |
| 374.20 | Rights of Way | 2.15% | 1.37% | 1.38% | 1.37% |
| 375.00 | Structures & Improvement | 1.15% | 3.35% | 0.30% | 3.35% |
| 376.00 | Mains | 3.82% | 1.81% | 2.29% | 1.81% |
| 378.00 | Measuring & Reg Stations | 4.12% | 3.87% | 3.44% | 3.87% |
| 380.00 | Services | 5.30% | 2.82% | 2.96% | 2.82% |
| 381.00 | Meters | 1.98% | 4.15% | 2.72% | 4.15% |
| 385.00 | Industrial Measuring & Reg Sta | 4.31% | 1.78% | 2.06% | 1.78% |
| 387.00 | Miscellaneous Equipment | 5.26% | 0.00% | 0.00% | 0.00% |
| 389.00 | Land & Land Rights | 0.00% | 0.00% | 0.00% | 0.00% |
| 390.10 | Structures & Improv - Co. Owned | 1.84% | 2.79% | 1.98% | 2.79% |
| 390.20 | Structures & Improv - Leasehold | ---non-depreciable/fully depreciated/amortized--- | | | |
| 391.00 | Office Equipment | 2.73% | 7.29% | 5.56% | 7.29% |
| 391.10 | Computer Equipment | 14.87% | 21.94% | 20.00% | 21.94% |
| 392.11 | Transportation Equipment - Light | 7.65% | 14.37% | 9.38% | 14.37% |
| 392.12 | Transportation Equipment - Heavy | 7.65% | 4.07% | 6.83% | 4.07% |
| 393.00 | Stores Equipment | 2.08% | 3.73% | 4.00% | 3.73% |
| 394.00 | Tools, Shop, & Garage Equip. | 2.17% | 10.39% | 6.67% | 10.39% |
| 395.00 | Laboratory Equipment | 3.93% | 5.48% | 4.00% | 5.48% |
| 396.00 | Power Operated Equipment | 3.88% | 3.46% | 5.00% | 3.46% |
| 397.00 | Communication Equipment | 8.88% | -1.11% | 7.69% | -1.11% |
| 397.20 | Telemetry Equipment | 6.19% | 21.96% | 10.00% | 21.96% |
| 398.00 | Miscellaneous Equipment | 4.53% | 6.38% | 6.25% | 6.38% |
| <u>System Allocable</u> | | | | | |
| 301.00 | Organization | ---non-depreciable/fully depreciated/amortized--- | | | |
| 303.00 | Miscellaneous Intangible | ---non-depreciable/fully depreciated/amortized--- | | | |
| 389.00 | Land & Land Rights | ---non-depreciable/fully depreciated/amortized--- | | | |
| 390.10 | Structures & Improv - Co. Owned | 2.30% | 2.79% | 2.30% | 2.30% |
| 390.20 | Structures & Improv - Leasehold | 12.31% | 2.79% | 12.31% | 12.31% |
| 391.00 | Office Equipment | 6.67% | 7.29% | 6.67% | 6.67% |
| 391.10 | Computer Equipment | 20.00% | 21.94% | 20.00% | 20.00% |
| 392.11 | Transportation Equipment - Light | 10.37% | 14.37% | 10.37% | 10.37% |
| 392.12 | Transportation Equipment - Heavy | 8.18% | 4.07% | 8.18% | 8.18% |
| 392.21 | Transportation Equipment - Aircraft | 4.00% | 0.00% | 4.00% | 4.00% |
| 393.00 | Stores Equipment | 6.67% | 3.73% | 6.67% | 6.67% |
| 394.00 | Tools, Shop, & Garage Equip. | 6.67% | 10.39% | 6.67% | 6.67% |
| 395.00 | Laboratory Equipment | 5.00% | 5.48% | 5.00% | 5.00% |
| 396.00 | Power Operated Equipment | 5.66% | 3.46% | 5.66% | 5.66% |
| 397.00 | Communication Equipment | 6.67% | -1.11% | 6.67% | 6.67% |
| 397.20 | Telemetry Equipment | 16.66% | 21.96% | 16.66% | 16.66% |
| 398.00 | Miscellaneous Equipment | 6.67% | 6.38% | 6.67% | 6.67% |

By: 

Printed Name: Elijah Abipah

Company: Arizona Corporation Commission

Title: Acting Director: Utilities Div.

Dated this 20th day of January, 2017

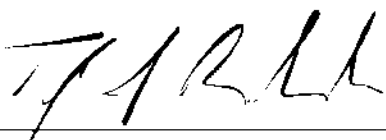
By: Catherine M. Mazzeo

Printed Name: Catherine M. Mazzeo

Company: Southwest Gas Corporation

Title: Assistant General Counsel

Dated this 20th day of January, 2017

By: 

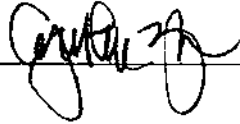
Printed Name: Tyler J Rohach

Company: Desert Valley Natural Gas LLC

Title: President

Dated this 20th day of January, 2017

By: _____



Printed Name: ___ Cynthia Zwick

Company: ___ Arizona Community Action Association

Title: ___ Executive Director

Dated this 20th day of January, 2017

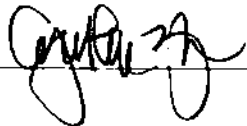
By: 

Printed Name: Elijah Abinah

Company: Arizona Corporation Commission

Title: Acting Director, Utilities Division

Dated this 20th day of January, 2017

By: _____

Printed Name: ___Cynthia Zwick

Company: ___Arizona Community Action Association

Title: ___Executive Director

Dated this 20th day of January, 2017

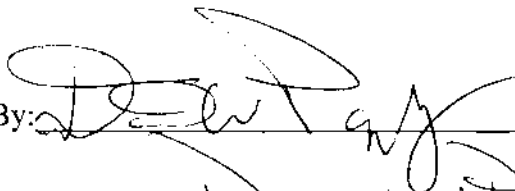
By: Meghan H. Grabel

Printed Name: Meghan H. Grabel

Company: Osborn Maledon, P.A.

Title: Attorney for Arizona Investment Council

Dated this 20th day of January, 2017

By: 

Printed Name: Daniel W Tozetsky

Company: PUCO

Title: Chief Counsel

Dated this 20th day of January, 2017

By: 

Printed Name: Robert Miller

Company: PORA

Title: Director